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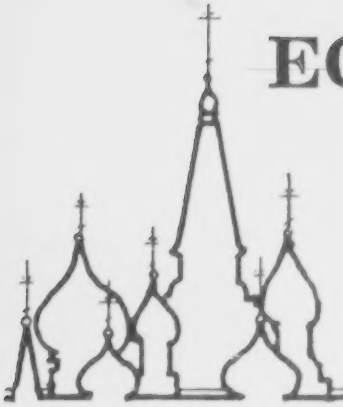

ECONOMIC NEWSLETTER

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ECONOMIC RESULTS FOR 1988

Product	1988	1988 as a % of 1987
Electricity (billion kw hrs)	1705	102%
Petroleum (million tons)	624	100
Natural Gas (billion meters³)	770	106
Coal (million tons)	772	102
Steel (million tons)	163	100.7
Fertilizer (million tons)	37.1	102
Metal-cutting tools (thousand units)	22.3	106
Robots	*	*
Computer tech. (billion rubles)	6.5	117
Tractors (million hp)	*	*
Paper (million tons)	6.3	102
Cement (million tons)	139	102
Meat (million tons)	12.7	104
Margarine (million tons)	1.5	97
Watches (million units)	73.5	104
Radios (million units)	8.0	98
TV sets (million units)	9.6	106
Automobiles (million units)	1.3	95

* not published

LIVESTOCK HERDS

Herd	As of 1/1/88	As of 1/1/89	1989 as a % of 1988
Cattle	120.6	118.9	98.5%
Cows	42.0	41.5	98.8
Hogs	77.4	77.7	100.4
Sheep Goats	147.3	145.9	99.

Production Results for 1988

As we have been reporting during the course of the year, the economy in 1988 had its problems. The main difficulty was for the consumer. Many indices for specific industries did show an increase over 1987, some of them in fact grew even faster than 1987, but because of growing inflation, something that was not a problem until 1987, the perception of the consumer is that things have deteriorated. Lines are longer and complaints are more frequent.

The economic report for the year is one of the most extensive that the Soviets have released. It provides more information and faces up to many of the difficulties. However, not all. For example, from information released earlier in the course of the year, we know that housing construction fell from what it had been in 1987. However, the Soviets masked that fact, as they so often do, by showing that the results of 1988 are better than they were over a two-year period. *Glasnost'*, in other words, is still not complete.

One of the striking features about the very lengthy report is that consumer goods and consumer well-being are given top priority. It is the main focus for much of the first half of the report. There is also a general discussion about changes in the economic environment. For example, the official report ack-

nowledges that people were poorly supplied with food. They also report that one million people were reassigned in their jobs and that two million people are working either privately or in cooperatives. The Soviets have also set up quasi-employment offices in some of their cities.

Some of their major problems are related to the fact that salaries increased faster than production. For example, the Soviets report that the growth in money incomes was higher than the sum of the increase in money incomes of the two preceding years, that is, 1987 and 1986. They also provided some information about poverty. There were three million people in urban areas in the Soviet Union who received wages that were lower than 80 rubles per month. For comparison, the average wage was 217 rubles. The per capita income was estimated to be approximately 152 rubles per month for urban workers, and 121 rubles per month for peasants. The number of people receiving per capita income of 75 rubles per month fell from 18% of the total in 1985 to 14% in 1988.

The Soviets also devoted serious attention to price increases. Prices rose on many products, but actually fell on some, particularly in the collective farm markets of the Baltic states. There is a lengthy discussion about an unexpected result of the new reforms which gave more power to the enterprises in determining their product mix. Enterprises moved towards the production of more expensive goods, reducing the production of cheaper goods for which there is a smaller margin.

There is also a report about foreign trade activity. Exports for the year rose 4% in volume, but in terms of revenue collected, fell by 1.9%. The opposite effect was observed on imports. Prices rose on imports by 6.5%, whereas the volume dropped by 1%.

Some specific production indices worthy of note include the fact that meat production rose 4%, whereas margarine fell by 3%, as did sugar, which fell by 12%, and bread production, which fell by 3%. This is one of the few times that the production of bread has diminished, obviously a very critical consideration. This also reflects an increasing number of complaints about bread, which has always been regarded as the most vital staple in the Soviet Union. Other items of concern include the fact that the grain harvest was only 195 million tons compared to 211 in 1987. Similarly, the harvest of potatoes was only 63 million tons compared to 78 million tons in 1987. The fruit harvest was 8.9 million tons compared to 10.4 in 1987, and the harvest of grapes fell to 5.6 in the aftermath of the crackdown on alcohol production compared to 7.1 in 1987.

As far as the heavy industrial products are concerned, while petroleum production was constant, again 624 million tons, steel production barely increased by a fraction of 1%. Most other industrial products did show some increase.

Because of the poor harvest, the Soviets report that they had to import 36 million tons of grain, although most of it was feed grain.

It is also worthy of note that as of the end of the year, there were 191 foreign joint ventures, including 27 with socialist country partners.

Finally, as the figures show, the herd of cattle, cows, sheep and goats diminished from 1987 levels, continuing the decline from 1986. In other words, the livestock herds diminished two years in a row. The one exception to that, of course, was the chicken flock, for which the Soviets for some reason do not publish figures for January 1, 1989, and the pig herd, which increased a fraction.

Foreign Trade Statistics for The First Three Quarters of 1988

The Soviets have released foreign trade statistics for 1988. They show an increase in exports by about a half billion rubles to the hard currency bloc, but an even larger increase in imports from the same group of countries. The main reason for the big change is the fact that the Soviets imported about 600 million rubles more from the United States than they did in the first three quarters of 1987. For the most part that was grain. As we saw in the report of the industrial figures, the Soviets reported that they imported 36 million tons of grain during the calendar year. Because of the grain imports, the United States became the third largest exporter to the Soviet Union during the first three quarters of 1988, led only by West Germany and Japan. Other notable changes included the fact that exports from West Germany

rose by 400 million rubles, while those from Italy dropped by about 200.

As a result primarily of the increase in grain imports, the Soviets ended up with a trade deficit of 1.2 billion rubles for the first three quarters of the year.

Corporate Sponsor Seminar: "Soviet Agriculture: The Impact of Reform"

Vladimir Tikhonov, an outstanding writer on agriculture, a member of the All-Union V.I. Lenin Academy of Agricultural Sciences, and one of Gorbachev's two main advisors on agriculture will be our special guest for our third Corporate Sponsor Seminar of 1988-89.

In addition to an examination of the reforms as they exist on paper, Dr. Tikhonov and Mr. Fred Crook of the U.S. Department of Agriculture will look at the reform process in action, in case studies of the Soviet Union and China. Marshall Goldman will then compare the two systems and suggest lessons to be learned.

Export prospects will be discussed by Mr. Karl-Hugo Schlunk, the president of Alfred C. Toepfer International, and Mr. John Kingery, the Associate General Counsel of the Office of the U.S. Trade Representative. Mr. Kingery was the chief U.S. legal counsel in the most recent Soviet-American grain sales.

The final panel will examine joint ventures and other activities in the food processing and chemical industries and will feature Mr. Jack Reed, Vice President, International for Archer Daniels Midland, and Mr. Nha Hoang, Director, International of the FMC Corporation.

The opinions expressed in the Economic Newsletter are those of the author and not the Russian Research Center unless explicitely stated as such.

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Arden House to be held March 31 - April 2

The program for the thirteenth annual Arden House Conference on American-Soviet Relations is now in the final stages of completion. Organized in a series of panel discussions, this year's conference will focus on the impact of a new American administration on various aspects of Soviet-American relations. Topics this year include a look at internal political restructuring, the impact of *perestroika* and *glasnost* on Soviet foreign policy developments, and economic reform, all important issues deserving serious attention. The Soviet foreign trade outlook will be assessed by representatives from Western nations, including the United States, Federal Republic of Germany, and Great Britain.

Our congressional panel now includes Congressman Peter Smith. We anticipate the addition of others as they work out their congressional calendars. A special panel of representatives of the new Bush administration will provide us with some insight into the policy objectives of the next administration. Thus far we have high level speakers from the Departments of Defense, State, and Commerce. The final panel on Sunday will feature representatives of American companies operating in the Soviet Union, with Moscow representatives from General Electric, Wang.

A copy of the program and an application form are enclosed for your use. If you have any questions regarding the conference, please do not hesitate to contact Marshall Goldman or Catherine Reed at (617) 495-4485. Our fax number is (617) 495-8319.

BALANCE OF TRADE - 1st NINE MONTHS OF 1982 - 1987 (Million Rubles)

	EXPORTS FROM THE USSR							IMPORTS TO THE USSR						
	1982	1983	1984	1985	1986	1987	1988	1982	1983	1984	1985	1986	1987	1988
Austria	493	413	563	603	415	268	328	387	622	656	615	638	428	497
Belgium	774	741	902	658	444	569	587	421	449	380	425	337	274	289
Great Brit.	622	802	974	833	943	1158	1253	531	495	587	563	407	394	415
Greece	441	343	416	408	156	176	252	100	128	87	104	46	32	61
Denmark	268	221	275	213	105	91	87	53	54	73	76	113	59	77
Spain	106	229	224	148	81	334	437	127	182	227	291	130	122	114
Italy	2209	2152	2388	1799	1110	1271	1283	874	1119	983	970	1119	1250	1077
Neth.	1175	1393	1243	770	425	591	488	282	410	188	227	181	185	194
Norway	59	59	78	91	41	51	50	56	75	60	51	55	48	61
Germany	2982	2498	3478	3026	2197	1780	1837	2201	2685	2558	2400	2268	2037	2451
France	1664	1768	1695	1554	1116	1093	1150	958	1353	1246	1291	860	851	789
Switz.	326	394	290	244	235	239	281	311	274	293	384	360	404	636
Sweden	289	491	441	392	213	301	309	283	191	184	240	190	171	182
Japan	556	579	633	695	721	690	884	2129	1707	1534	1849	1755	1234	1464
Subtotal	11964	12083	13600	11026	8202	8612	9226	8713	9744	9056	9486	8459	7489	8307
Sub-Bal. of Trade								+3251	+2339	+4544	+1540	-257	+1123	+919
Argentina	25	19	20	44	51	31	16	1133	1153	983	1114	172	374	331
U.S.A.	112	171	210	228	216	197	223	1811	1037	1734	1927	997	747	1334
Canada	17	22	15	13	9	11	11	945	990	971	466	383	327	352
Australia	12	5	12	12	7	10	9	438	321	365	446	446	253	240
New Zealand	5	1	6	3	3	4	8	178	145	38	61	3	58	71
Brazil	122	85	93	48	25	43	14	356	429	396	300	200	190	138
Total	12257	12386	13956	11374	8513	8908	9507	13574	13819	13543	13800	10660	9438	10773
Balance of Trade								-1317	-1433	+413	-2426	-2147	-530	-1266
Finland	1735	1744	1833	1588	1153	1292	1170	2021	2043	1747	1914	1677	1530	1613
	13992	14130	14789	12962	9666	10200	10677	15595	15862	15290	15714	12337	10968	12386
								-1600	-1732	-501	-2752	-2671	-768	-1709